

Weekly Contributions
Latin America Division, ORE, CIA
4 October 1949

CURRENT DEVELOPMENTS

GENERAL: European currency devaluations will have deflationary effects in Latin America, but trade with the dollar area will not be seriously affected (p. 2). British dependencies in the Western Hemisphere will experience serious disadvantages as the result of currency devaluations (p. 3).

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SOUTHERN BRANCH: In Argentina the exchange rate of the peso has been readjusted to expand international trade (p. 4).

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Weekly Contributions, D/LA
(OTA Working Paper)

4 October 1949

1. GENERAL: Probable Effects in Latin American Countries of Devaluation of European Currencies

The devaluation of European currencies will increase the probability of devaluation of several Latin American currencies and will have a deflationary effect in most of Latin America; it may tend to ease some present Latin American trade controls; but will have only a limited effect on present trade patterns and trade volume.

The devaluation of European currencies will cause the most pressure for devaluation of local currencies in those Latin American countries whose exports go principally to the UK and Western Europe. Argentina was under the most pressure and has been the first Western Hemisphere country to devalue in the wake of the European devaluations. Uruguay, Chile, and Peru are also under considerably increased pressure to devalue, as is Brazil, but to a lesser extent. Colombia and Ecuador, while only slightly affected economically by the European devaluation, may now find it politically more feasible to make this move, which has been under consideration for some time. Mexico, which devalued its currency several months ago, and Cuba and Venezuela will be only slightly affected by the other countries' devaluations, and are not likely to devalue at this time.

The devaluation of European currencies tends to have a deflationary effect in Latin American countries. Latin American imports from Europe and the UK, which are about one-third of all Latin American imports, will be cheaper.

Latin American exports to the devaluing countries will tend to decline in volume, and also to decline in value in terms of non-devalued currencies. The decline in Latin American export prices will be felt particularly where competition with suppliers in the devaluing area is greatest. For example, Uruguay has a large stock of unsold wool, which competes with Australian wool, and the Australian wool can now be sold at lower dollar prices. Consequently, Uruguay's wool stock will probably be sold at lower dollar prices than had previously been anticipated. Unless Uruguay devalues its currency this will mean a lower peso price too. Sterling debts, owed by such countries as Bolivia, Chile, Peru, Costa Rica, and Honduras, are reduced in terms of the local currencies, and this also has a somewhat deflationary effect.

The exchange and trade problems faced by Latin American countries, particularly during the past two years, have resulted in the establishment of various exchange controls, trade agreements, quota arrangements, and other trade-control mechanisms designed to shift import orders from the dollar area to soft-

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currency area suppliers, and to maximize exports to the dollar area. Although trade agreements and some Latin American trade controls will undoubtedly have to be at least partially renegotiated as a result of the European currency devaluations, the devaluations will provide an additional incentive for Latin American purchasers to shift orders to European suppliers, and will therefore help to maintain the shift in trade patterns induced by controls. It may also eliminate the necessity for some of the restrictive trade controls.

Exports from Latin American countries have been directed as much as possible toward the US during the past year by use of various trade controls. The European currency devaluations will tend to support this trade shift to the US. However, since the US already takes nearly everything that Latin American countries can supply advantageously, little immediate shift in export patterns may be expected. In addition, the Latin American export pattern for such important items as sugar, coffee, tin, and copper tends to be fixed by US market peculiarities and trade agreements. Therefore, European devaluations should have relatively little effect on Latin American export trade with the dollar area.

2.

Effect of Devaluation on British Dependencies in the Western Hemisphere

The basic trade pattern of the British dependencies in the Western Hemisphere is such that serious disadvantages and few benefits will result from the 30.5 percent devaluation of the colonial currencies that followed the devaluation of the pound. While the bulk of exports from these dependencies go to the UK, they rely on the US for a sizeable portion of their essential requirements, such as food and manufactured goods. Thus in 1948, even with rigid restrictions on dollar imports, \$61.5 million worth of goods were imported from the US as compared with exports of only \$16.5 million to the US. This adverse merchandise balance was partially offset by a surplus on invisible accounts — tourism \$11 million, personal and institutional remittances \$7 million, and US military expenditures in the area \$11 million. The dollar deficit for the year was thus reduced to \$16 million. Stricter import controls are now in effect throughout the area, and dollar imports will probably be somewhat reduced. Although devaluation will make it cheaper for Americans to travel in the area, total dollar earnings from this source are unlikely to increase materially because of the limitation of accommodation and transportation facilities. Further impairment of the dollar position of the dependencies will result from the decision of the US Air Force to

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close down completely five of its six bases in the area. The closing of these bases will represent an annual loss of dollar revenue of about 4 million.

Stricter import controls will tend to depress the already low standard of living in the area and may be a cause of future unrest among the natives. Even if merchandise imports from the US are cut to the minimum, these dependencies will continue to constitute a drain on UK dollar resources.

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4. ARGENTINA: Modification of Exchange Rates

The 3 October adjustment of foreign exchange rates for the Argentine peso and the establishment of a complicated system of preferential rates appear to be designed to ease Argentina's dollar shortage by facilitating increased exports to the US; to adjust the peso exchange rate to the devalued dollar rate of the pound; and to give domestic industry a certain measure of protection.

While it is impossible to determine the exact effect of these adjustments in the absence of information as to the application of the various rates to various commodities, D/LA estimates that it is a step in the direction of implementing the government policy of expanding world trade on a competitive price basis. The lack of change in the basic export rate (applicable to such items as beef and grains, which historically have constituted about half of

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Argentina's export trade) may be disadvantageous in the face of recent devaluations by competitors; but this rate may have been retained as a temporary expedient to bargain with the British for an increase in the price of meat to compensate for British devaluation.

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The Current Situation in Panama

(Summary -- President Chanis, who has been in office only since 23 August, faces opposition from several political groups, but has the backing of the National Police. The economic situation continues to be adverse. Panama's small Communist minority has not gained in strength. The National Police force continues to be of little consequence as a factor in national defense. The government continues its friendly attitude toward the US.

-- US security interests are not seriously affected by current developments.)

Political

President Chanis -- former vice president who became president on the death of President Domingo Díaz Arosemena on 23 August -- faces political opposition from several groups as the result of his cabinet appointments. Chanis appointed a cabinet composed chiefly of supporters of ex-President Jiménez and as a result does not have a majority backing in the National Legislature. It is thought that Temi Díaz (son of the ex-President), "Baby" Jiménez (Díaz' nephew), and some of the Partido Nacional Revolucionario (PNR) and the Renovadores may offer strong opposition to the administration in coming months. It is reported that the police are somewhat less loyal to Chanis than to Díaz. Chief of Police Remón, who remains in control despite his illness, is friendly both to the Díaz faction and to some of the Renovadores. D/LA estimates, however, that the National Police -- whose support is essential if Chanis is to continue in office -- will back the administration at least for the present and that the President will therefore remain in office for the immediate future.

Economic

Panama's economic situation remains unfavorable. While it is true that new sources of national revenue have been established as the result of the transfer of the activities of four US airlines to Tocumen National Airport from the Canal Zone (see International), a general reduction in US expenditures in the Canal Zone is causing a sharp decline in the national income. The total employee strength of the Panama Canal and The Panama Railroad Company is at the lowest point since 1940 and cuts in the number of employees in US defense establishments in the Canal Zone are anticipated. Work on 15 public works projects was recently suspended due to lack of funds, disrepair of equipment, etc. The government has taken initial steps toward the negotiation of loans in the

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US for the purpose of financing public works projects. Little has been accomplished, however, toward devising plans for economic and especially agricultural development. For the immediate future no notable improvement in the economic situation is expected.

Subversive

The present administration, like its predecessor, is hostile toward local and world Communism. There appears to have been no increase in the strength of Panama's small Communist minority in recent months. D/LA foresees for the immediate future no increase in Communist strength and no increase in the Party's low sabotage capabilities.

Military

The National Police force continues to be of practically no value as a factor in national defense and is mediocre as a police force. There is little possibility of an increase in the efficiency of the police.

International

In foreign policy matters the government continues its friendly attitude toward the US. US-controlled commercial aviation activities were officially transferred to Tocumen National Airport from the Canal Zone on 21 September as an implementation of the US-Panamanian Air Transport Agreement. This move was heralded by both governments as an important demonstration of solidarity in the solution of controversial international problems.

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The Current Situation in Brazil

(Summary -- The stability of Brazil's government continues to be unquestioned, despite intense pre-election political activity. Prospects for the gradual improvement of the economy are good. The armed forces face certain training difficulties, but their loyalty to the administration is unquestioned and morale is high. The increase in Communist activity during the pre-election period poses no threat to national security. In international affairs, even though Brazil has taken an independent stand on the Spanish question, it continues to cooperate closely with the US.

-- Brazil's decision to send an ambassador to Spain impinges upon the US security interest in solidarity of Latin American governments with the US in extra-Hemisphere matters in that this decision was independently taken.)

Political

The most recent developments in Brazil's potentially explosive presidential campaign are: the expensive preparations Governor Adhemar de Barros of São Paulo is making for his campaign (he has already engaged the services of a US advertising agency); the persistent rumors that he is dickering for the support of ex-President Getulio Vargas; and the continuing efforts of the parties supporting the administration to join forces against this double threat. The uneasiness Barros inspires is reflected in the unusual willingness of the government-oriented parties to cooperate with each other, and at the moment they seem to be well on the way to agreement on a joint presidential candidate. Should they fail to get together, Barros will stand a better-than-even chance of winning the election.

The stability of the Brazilian Government, however, despite pre-election strains, continues to be unquestioned. The present attitude of the armed forces -- on whom continued political stability depends -- is reassuring. High-ranking officers of the three services recently held a series of secret meetings for the purpose of reaching a common stand on the elections. While the majority reportedly favor War Minister Canrobert as the government candidate, the most significant decision reached was that if Barros should be elected with Vargas' support, but without making a deal with the Communists, the army would not prevent him from taking office. Although the army would undoubtedly prefer

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that this decision never be put to the test, it is an indication of respect for the constitutional order on the part of the only group at present powerful enough to threaten it.

Economic

Although there appears to be no immediate solution to Brazil's two major economic problems -- inflation and dollar shortage -- prospects seem favorable for a gradual improvement of Brazil's economy.

This is particularly true in regard to that country's dollar position. It is possible that, if that section of the foreign exchange budget which grants dollars for payment of the commercial backlog is not revised upward, Brazil may not be able to pay off completely its estimated US\$150 million backlog due US importers before 1951. The new import-export regulations and exchange controls which have been in force for nearly three months are beginning to show signs of greater effectiveness, however, and Brazil may not have to negotiate a large US loan to pay off this backlog. Informal conversations concerning a US-Brazilian investment treaty and a convention for the elimination of double taxation reportedly are now being held. The adoption of these two agreements would be economically advantageous to both countries, but should not be expected to produce effects within a few months. In an effort to curtail the flow of hard currency from the country, Brazil can be expected to make additional barter-type trade agreements with other soft-currency countries, as it did with Great Britain (C/LA Wkly, 9 Aug 49), and with Norway, in recent weeks. Brazil may further better its dollar position during the coming year because of the strong position of coffee -- still Brazil's major source of dollars -- the price of which, both in the spot market and the futures market, has reached a record high. This present high price of coffee may continue during the next two or three years, saving a world-wide depression or a serious setback of Brazil's principal customer, the US, because the current world consumption rate of coffee considerably exceeds the world production rate.

Brazil's crop for the past season (1 Jul 48-1 Jul 49) was considerably smaller than that of the previous season, and, should the rate of exportation of the 1948-49 season continue, Brazilian stocks will be reduced to a very low level by next July when the 1950 harvest will begin to move into export channels. It is too early to estimate the amount of the 1950 harvest, but it is not likely that it will exceed by much, if any, the present crop.

Following the announcement that Great Britain and other European countries had devalued their currencies, Brazilian Finance Minister Silveira stated to the press in Rio that Brazil would not devalue the

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cruzeiro, and a delegate of the Brazilian Treasury in New York City said that Brazil had not made, and did not intend to make, any request to the International Monetary Fund for an alteration in the par value of the cruzeiro. Because Brazil is receiving high prices for its major exports and has no large surpluses of commodities to liquidate and because Brazil's economy is basically stable, there appears to be no compelling reason from an economic standpoint for Brazil to devalue its currency at this time. D/LA estimates that there are no immediate prospects for the devaluation of the cruzeiro.

Military

No significant developments affecting strength or disposition of the Brazilian armed forces have been reported in the last few months.

The difficulty of finding candidates sufficiently prepared for the courses of instruction at the military, naval, and air academies this year became acute as a very small minority of the applicants were able to pass the entrance examinations. In an effort to meet this problem, the air forces recently opened a preparatory school in Minas Gerais to train prospective candidates for admission to the air academy. The Navy Ministry, reportedly, plans to open a similar school for naval academy candidates.

On 3 September the Brazilian navy commissioned the second of the six class "A" destroyers it is building. While present Brazilian naval planning is still largely aimed at neutralizing a possible Argentine threat, some of the younger officers reportedly hope eventually to concentrate on building up a small, modern navy geared to anti-submarine warfare.

The morale of the armed forces is believed to be high, and their loyalty to the present administration is unquestioned.

Subversive

The intense Communist activity and aggressiveness of the last two months seem to have had a three-fold motivation: to further the propaganda objectives of the Soviet Union; to invite suppression in the hope of turning Brazilian liberals against the Dutra government; and to train the Party membership in subversive tactics. It was apparently with these ends in mind that the Communist revived their "peace" campaign, and, in spite of police prohibitions and arrests, made a vigorous and coordinated effort throughout the country to hold meetings in preparation for the Continental Peace Congress in Mexico City. A further expression of this aggressiveness was the violent speech by Pedro Pomar, Brazilian Communist Deputy elected on the Partido Social Progressista ticket, in the Mexico City "peace congress", reportedly accusing the Brazilian army of taking orders from US generals, which caused some congressmen and newspapers to demand that he be deprived of his seat in the Chamber of Deputies.

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Such activities, regardless of their benefits to Communist organization and propaganda, pose no immediate threats to Brazilian national security. It is true that local officials, bidding for Communist votes, will be inclined to allow them more latitude than usual, giving them a chance to take advantage of the opportunities offered by the electoral campaign to stir up more serious trouble and possibly to provoke police or military action against themselves or other political groups. The federal government, however, will use rigorous measures for circumscribing Communist capabilities for widespread action; for example, the Minister of Justice is expected to put pressure on state governments to prevent any conspicuous Communist-inspired demonstrations. Presidential candidates may, because of the army's clearly defined position, be discouraged from making any deals with the Communists.

International

President Dutra announced this month that Brazil will send an ambassador to Spain to fill the post which was vacated in 1946 in compliance with the recommendations of the United Nations General Assembly. This action, motivated by commercial considerations, impinges upon the US security interest in the solidarity of Latin American governments with the US on important extra-Hemisphere matters in that it is independently taken. This particular move, however, cannot be considered contrary to US policy since the US has followed a neutral course on the Franco-recognition question. This action points up the fact that Brazil's usual close cooperation with the US will, as occasion demands, be tempered by those actions which Brazilians believe will benefit Brazil or the world in general. The decision to normalize relations with Franco Spain is not, however, considered by D/LA to be any indication that Brazil will alter its general policy of prior consultation and close cooperation with the US in the international field.

Officially, Brazil maintains friendly relations with all its neighbors, but Argentina continues to be a source of apprehension in government circles, particularly among officials of the armed services (D/LA Weekly, 19 Jul 49).

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